

OUTLINE
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PRESENTATION TO PUBLIC OVERSIGHT BOARD
PANEL ON AUDIT EFFECTIVENESS

CHAIR O'MALLEY AND PANEL, I AM **HONORED** TO SPEAK BEFORE THE PUBLIC OVERSIGHT BOARD PANEL ON AUDIT EFFECTIVENESS.

I AM A CPA IN PUBLIC PRACTICE AND PAST CHAIR OF THE WASHINGTON STATE BOARD OF ACCOUNTANCY.

HISTORICALLY WASH STATE BOARD OF ACCOUNTANCY HAS PROACTIVELY SOUGHT TO **FOSTER GOODWILL, CLEAR COMMUNICATIONS, AND A SOUND RELATIONSHIP** BETWEEN THE WASH STATE BOARD AND THE POB. WE WELCOME THE OPPORTUNITY TO CONTINUE THIS DIALOGUE AND GOODWILL.

TODAY I WANT TO COMMUNICATE THE FOLLOWING FOUR ISSUES OR STATEMENTS:

FIRST: THE NEED FOR A **PARTNERSHIP EFFORT** BETWEEN STATE BOARDS AND THE SEC/POB/ISB

SECONDLY: WASHINGTON STATE BOARD'S DESIRE FOR **SEC/POB/ISB SUPPORT** IN ITS ENFORCEMENT ACTIVITIES

THIRD: THE CRITICAL IMPORTANCE OF THE **SEC/POB/ISB'S CONTINUED ATTENTION TO AUDIT INTEGRITY AND AUDITOR INDEPENDENCE**

FORTH: **IT IS IMPERATIVE TO INCLUDE REFERRAL TO STATE BOARDS AS PART OF THE SEC/POB/ISB DISCIPLINARY PROCESS**

PLEASE NOTE: OUR COMMENT PRIMARILY DEAL WITH CHAPTER 6 (GOVERNANCE) AND TO SOME EXTENT CHAPTER 5 (INDEPENDENCE)

FIRST STATEMENT
PARTNERSHIP BETWEEN THE REGULATORS IS KEY TO SUCCESS

IN **APRIL 1998** AT THE INVITATION OF THE PUBLIC OVERSIGHT BOARD, I, ALONG WITH THE BOARD'S EXECUTIVE DIRECTOR, DANA MCINTURFF, ATTENDED **A FORUM IN SEATTLE** TO DISCUSS OUR CONCERNS REGARDING AUDIT QUALITY. AS A FOLLOW UP TO THE FORUM WE SUBMITTED OUR COMMENTS IN WRITING TO THE POB. I HAVE INCLUDED A COPY OF THIS **CORRESPONDENCE IN THE HANDOUT [PAGE #2]**.

IN 1998 WE REQUESTED THE POB SUPPORT APPOINTING A **NASBA REPRESENTATIVE ON THE ISB**. WE OUR LETTER WE STATED:

“IN ALL STATES, BOARDS OF ACCOUNTANCY REGULATE THE PRACTICE OF PUBLIC ACCOUNTING - INCLUDING INDEPENDENCE REQUIREMENTS. THE WASHINGTON STATE BOARD OF ACCOUNTANCY REQUESTS THE POB'S SUPPORT AND ASSISTANCE IN APPOINT THE CHAIR OF THE NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY (NASBA) TO THE INDEPENDENCE STANDARDS BOARD.”

THIS CONTINUES TO BE OUR FOCUS. WASHINGTON STRONGLY BELIEVES **EFFECTIVE REGULATION WILL ONLY OCCUR WHEN THE STATE BOARDS AND THE PUBLIC OVERSIGHT BOARD AND THE SEC PARTNER** IN REGULATORY EFFORTS - **STATE BOARDS** MUST HAVE A **REPRESENTATIVE ON THE ISB AND** IF A **SELF REGULATORY ORGANIZATION** IS ESTABLISHED, STATE BOARDS MUST BE EQUALLY REPRESENTED.

BOTH THE ISB AND THE ANTICIPATED SRO MUST HAVE THE BACKING, PARTICIPATION, AND ENFORCEMENT SUPPORT OF THE STATE BOARDS.

THIS WILL CREATE A **CONCERTED, NATIONWIDE FORCE** FOR AUDIT AND AUDITOR INTEGRITY. IN TODAY'S E-ENVIRONMENT ENFORCEMENT EFFORTS MUST BE A COORDINATED NATIONWIDE EFFORT; A FRAGMENTED EFFORT BY ONE STATE, OR THE SEC, OR THE PROFESSION WILL NOT HAVE SUFFICIENT POWER TO BE EFFECTIVE.

SECOND STATEMENT
WE REQUEST PUBLIC OVERSIGHT BOARD & SEC SUPPORT OF
WASHINGTON'S ENFORCEMENT ACTIVITIES

WASHINGTON ACTIVELY INVESTIGATES ISSUES OF SUBSTANDARD WORK AND/OR NONCOMPLIANCE WITH STANDARDS.

FOR EXAMPLE, IN THE PAST **FOUR YEARS WE HAVE INVESTIGATED 22 CASES** DEALING WITH TECHNICAL DEFICIENCIES. OF THESE 22 CASES, **4 WERE REFERRED BY THE FEDERAL GOVERNMENT**; TWO WERE REFERRED BY OTHER GOVERNMENTAL ORGANIZATIONS AND **14 WERE IDENTIFIED THROUGH WASHINGTON'S QUALITY PROGRAM.**

OF THESE 22 CASES, 2 RESULTED IN LICENSE SUSPENSION, 11 RESULTED IN PRACTICE RESTRICTION WHEREBY THE CPA IS PROHIBITED FROM ISSUING REPORTS. ONLY 1 OF THESE 22 CASES WAS CLOSED WITHOUT BOARD SANCTION AND CORRECTIVE ACTION.

IT IS ALSO IMPORTANT TO NOTE, WASHINGTON HAS INVESTIGATED EVERY CASE REFERRED BY THE FEDERAL GOVERNMENT.

IN **WASHINGTON, CPAS ARE NOT SELF-REGULATED.** THE WASHINGTON **STATE BOARD OF ACCOUNTANCY REGULATES** CPAS TO ENSURE PUBLIC PROTECTION AND THE INTEGRITY OF FINANCIAL INFORMATION.

LAST APRIL, IN RESPONSE TO STATEMENTS MADE BY THE CHIEF ACCOUNTANT, OF THE SEC, THE CHAIR OF THE WASHINGTON BOARD, RUFINO MORALES, AND I TRANSMITTED A **LETTER TO LYNN TURNER** EXPRESSING THE BOARD'S POWERS AND AUTHORITIES OVER CPAS PRACTICING IN WASHINGTON STATE. I INCLUDED A COPY IN THE HANDOUT - PAGE 3. IN THIS COMMUNICATION WE STATED:

"THE WASHINGTON STATE BOARD OF ACCOUNTANCY IS COMMITTED TO ACHIEVING ITS DUAL LEGISLATIVE MANDATES OF PUBLIC PROTECTION AND INTEGRITY OF FINANCIAL INFORMATION. IN THIS REGARD, WE FULLY SUPPORT THE SEC'S FOCUS ON AUDITOR INDEPENDENCE. WE VIEW YOUR NATIONAL-LEVEL EMPHASIS AS STRONG SUPPORT FOR WASHINGTON'S OWN ENFORCEMENT

I WISH TO HIGHLIGHT, THE WASHINGTON BOARD IS BOTH CLEAR AND AFFIRMATIVE ON THE EFFECTIVENESS OF OUR ENFORCEMENT EFFORTS.

AND, WE RESPECTFULLY REQUEST THE **PUBLIC OVERSIGHT BOARD'S AND SEC'S CONTINUED SUPPORT** IN OUR ENFORCEMENT EFFORTS.

THIRD STATEMENT
WE BELIEVE IN THE CRITICAL IMPORTANCE OF THE PUBLIC
OVERSIGHT BOARD'S & THE SEC'S CONTINUED ATTENTION TO AUDIT
INTEGRITY & AUDITOR INDEPENDENCE

AS YOU WILL NOTE FROM OUR APRIL 2000 LETTER TO THE SEC'S CHIEF ACCOUNTANT, WASHINGTON **APPLAUDS THE SEC RECENT STRONG STANCE OF AUDIT INTEGRITY AND AUDITOR INDEPENDENCE.**

WE EQUALLY APPLAUD THE EFFORTS OF THE PUBLIC OVERSIGHT BOARD AND THE PANEL ON AUDIT EFFECTIVENESS.

INDIVIDUALLY, A STATE SUCH AS **WASHINGTON HAS AN INHERENT DISADVANTAGE IN ADDRESSING BOTH REGULATORY AND ENFORCEMENT ISSUES SURROUNDING LARGER FIRMS.....**WE SIMPLY HAVE A VERY LIMITED ENFORCEMENT BUDGET AND THE LARGER FIRMS HAVE A STRONG POLITICAL PRESENCE.

THE SEC'S EFFORTS HAVE ADDED FORCE TO OUR EFFORTS AND IS MUCH APPRECIATED.

WHAT BETTER PARTNER COULD A STATE REGULATORY BOARD ASK FOR THAN THE SEC? THE POWER BEHIND THE SEC'S RECENT STATEMENT HAVE ADDED STRENGTH TO OUR WORK AND WE HEARTILY SUPPORT THE SEC' CONTINUED EFFORTS.

HOWEVER, WASHINGTON IS, UNDERSTANDABLY, **RESISTANT TO ANY FEDERAL REGULATORY EFFORTS WHICH WOULD LIMIT AND/OR CIRCUMVENT THE AUTHORITY OF THE WASHINGTON STATE BOARD.** THIS IS NOT A SOLUTION.

FORTH STATEMENT
THE SEC AND PUBLIC OVERSIGHT BOARD MUST INCLUDE REFERRAL TO
STATE BOARDS AS PART OF THE DISCIPLINARY PROCESS

THE PUBLIC OVERSIGHT BOARD AND THE SEC MUST ADD REFERRAL TO STATE BOARDS IN THE SECTIONS REGARDING ENHANCING THE DISCIPLINARY PROCESS.

IN THE PANEL ON AUDIT EFFECTIVENESS' REPORT AND RECOMMENDATIONS, PAGE 139, SECTION 6.65 IS TRUE; HOWEVER 6.66 IS ALSO TRUE. WE HAVE THE SUBPOENA POWER AND PROSECUTION POWER.

WE AS A **STATE BOARD DO NOT HAVE THE LIMITATIONS** IMPOSED ON THE ETHICS DIVISION OF THE AICPA OR THE QCIC..... AND LIKEWISE STATE BOARDS DO NOT SUFFER UNDER LIMITED SANCTIONS SUCH AS SIMPLY EXPULSION OF CPAs FROM THE AICPA. WE ASK THAT THE PUBLIC OVERSIGHT BOARD **ADD A PROVISION TO CLOSE THE LOOP.**

FOR DISCIPLINE AND MONITORING TO BE EFFECTIVE THIS SECTION SHOULD **REQUIRE, A REFERRAL TO STATE BOARDS.** THESE ARE ESSENTIAL STEPS RECOGNIZING THE STATE BOARD'S AUTHORITY AND ENSURING PUBLIC PROTECTION. SPECIFICALLY, THE FOLLOWING MODIFICATIONS SHOULD BE CONSIDERED:

SECTION 6.4.4, 6.4.5, AND 6.4.6:

THE QUALITY CONTROL INQUIRY COMMITTEE SHOULD PROVIDE THE STATE BOARDS WITH SUFFICIENT INFORMATION TO NEGOTIATE A "LITIGATION MONITORING ORDER" OR ESTABLISH ANOTHER TYPE OF LITIGATION MONITORING PROCEDURES.

SECTION 6.6.4:

CONSIDER THE POSSIBILITY FOR STATE BOARDS TO WORK WITH THE QUALITY CONTROL INQUIRY COMMITTEE TO COMPEL A RESPONSE AND MORE TIMELY ACTION.

SECTION 6.7.1:

STATE BOARDS COULD ADD FORCE OF LAW TO SANCTIONS PROPOSED AT #4.

SECTION 6.7.4:

STATE BOARDS COULD COMMUNICATE ACTIONS TO THE SEC.

SUMMARY

TO SUMMARIZE MY STATEMENTS - WASHINGTON STRONGLY SUPPORTS:

- **A PARTNERSHIP** EFFORT
- **SEC AND PUBLIC OVERSIGHT BOARD SUPPORT OF WASHINGTON'S** REGULATORY & ENFORCEMENT ACTIVITY
- **SEC CONTINUED FOCUS ON AUDIT INTEGRITY** AND AUDITOR INDEPENDENCE
- **REFERRAL TO STATE BOARDS** AS PART OF THE DISCIPLINE PROCESS

I AM ANXIOUS TO ADDRESS ANY QUESTIONS YOU MAY HAVE.